Senate File 2164 - Introduced

SENATE FILE 2164
BY HATCH

A BILL FOR

An Act relating to the individual income tax by modifying the income tax brackets and tax rates, increasing the net income amounts for purposes of the alternate tax and minimum filing thresholds, eliminating the deduction for federal income taxes paid, increasing the personal exemption credit for dependents, and creating an exemption for certain married wage earners, and including effective date and retroactive applicability provisions.
BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

Section 1. Section 422.4, subsection 1, paragraphs b and c, Code 2014, are amended to read as follows:

b. *"Cumulative inflation factor"* means the product of the annual inflation factor for the ~~1988~~ 2014 calendar year and all annual inflation factors for subsequent calendar years as determined pursuant to this subsection. The cumulative inflation factor applies to all tax years beginning on or after January 1 of the calendar year for which the latest annual inflation factor has been determined.

c. The annual inflation factor for the ~~1988~~ 2014 calendar year is one hundred percent.

Sec. 2. Section 422.4, subsection 16, Code 2014, is amended to read as follows:

16. The words *"taxable income"* mean the net income as defined in section 422.7 minus the deductions allowed by section 422.9, in the case of individuals; in the case of estates or trusts, the words *"taxable income"* mean the taxable income (without a deduction for personal exemption) as computed for federal income tax purposes under the Internal Revenue Code, but with the adjustments specified in section 422.7 plus the Iowa income tax deducted in computing the federal taxable income and minus federal income taxes as provided in section 422.9, if available.

Sec. 3. Section 422.5, subsection 1, paragraphs a, b, c, d, e, f, g, h, and i, Code 2014, are amended by striking the paragraphs and inserting in lieu thereof the following:

a. On all taxable income from zero through eleven thousand seven hundred thirty dollars, three percent.

b. On all taxable income exceeding eleven thousand seven hundred thirty dollars but not exceeding forty-three thousand ninety dollars, four percent.

c. On all taxable income exceeding forty-three thousand ninety dollars but not exceeding eighty-eight thousand eight hundred twenty-one dollars, six and two-tenths percent.

d. On all taxable income exceeding eighty-eight thousand eight hundred twenty-one dollars, eight and eight-tenths percent.

Sec. 4. Section 422.5, subsection 1, paragraph j, subparagraph (1), Code 2014, is amended to read as follows:

(1) The tax imposed upon the taxable income of a nonresident shall be computed by reducing the amount determined pursuant to paragraphs *"a"* through ~~*"i"*~~ *"d"* by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the nonresident's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph *"a"*, is the numerator and the nonresident's total net income computed under section 422.7 is the denominator. This provision also applies to individuals who are residents of Iowa for less than the entire tax year.

Sec. 5. Section 422.5, subsection 1, paragraph j, subparagraph (2), subparagraph division (a), Code 2014, is amended to read as follows:

(a) The tax imposed upon the taxable income of a resident shareholder in an S corporation or of an estate or trust with a situs in Iowa that is a shareholder in an S corporation, which S corporation has in effect for the tax year an election under subchapter S of the Internal Revenue Code and carries on business within and without the state, may be computed by reducing the amount determined pursuant to paragraphs *"a"* through ~~*"i"*~~ *"d"* by the amounts of nonrefundable credits under this division and by multiplying this resulting amount by a fraction of which the resident's or estate's or trust's net income allocated to Iowa, as determined in section 422.8, subsection 2, paragraph *"b"*, is the numerator and the resident's or estate's or trust's total net income computed under section 422.7 is the denominator. If a resident shareholder, or an estate or trust with a situs in Iowa that is a shareholder, has elected to take advantage of this subparagraph (2), and for the next tax year elects not to take advantage of this subparagraph, the resident or estate or trust shareholder shall not reelect to take advantage of this subparagraph for the three tax years immediately following the first tax year for which the shareholder elected not to take advantage of this subparagraph, unless the director consents to the reelection. This subparagraph also applies to individuals who are residents of Iowa for less than the entire tax year.

Sec. 6. Section 422.5, subsection 2, paragraph a, Code 2014, is amended to read as follows:

a. There is imposed upon every resident and nonresident of this state, including estates and trusts, the greater of the tax determined in subsection 1, paragraphs *"a"* through *"d"* and *"j"*, or the state alternative minimum tax equal to seventy-five percent of the maximum state individual income tax rate for the tax year, rounded to the nearest one-tenth of one percent, of the state alternative minimum taxable income of the taxpayer as computed under this subsection.

Sec. 7. Section 422.5, subsection 3, Code 2014, is amended to read as follows:

3. *a.* The tax shall not be imposed on a resident or nonresident whose net income, as defined in section 422.7, is ~~thirteen~~ twenty-four thousand five hundred dollars or less in the case of married persons filing jointly or filing separately on a combined return, heads of household, and surviving spouses or ~~nine~~ twenty thousand dollars or less in the case of all other persons; but in the event that the payment of tax under this division would reduce the net income to less than ~~thirteen~~ twenty-four thousand five hundred dollars or ~~nine~~ twenty thousand dollars, as applicable, then the tax shall be reduced to that amount which would result in allowing the taxpayer to retain a net income of ~~thirteen~~ twenty-four thousand five hundred dollars or ~~nine~~ twenty thousand dollars, as applicable. The preceding sentence does not apply to estates or trusts. For the purpose of this subsection, the entire net income, including any part of the net income not allocated to Iowa, shall be taken into account. For purposes of this subsection,

net income includes all amounts of pensions or other retirement income received from any source which is not taxable under this division as a result of the government pension exclusions in section 422.7, or any other state law. If the combined net income of a husband and wife exceeds ~~thirteen~~ twenty-four thousand five hundred dollars, neither of them shall receive the benefit of this subsection, and it is immaterial whether they file a joint return or separate returns. However, if a husband and wife file separate returns and have a combined net income of ~~thirteen~~ twenty-four thousand five hundred dollars or less, neither spouse shall receive the benefit of this paragraph, if one spouse has a net operating loss and elects to carry back or carry forward the loss as provided in section 422.9, subsection 3. A person who is claimed as a dependent by another person as defined in section 422.12 shall not receive the benefit of this subsection if the person claiming the dependent has net income exceeding ~~thirteen~~ twenty-four thousand five hundred dollars or ~~nine~~ twenty thousand dollars, as applicable, or the person claiming the dependent and the person's spouse have combined net income exceeding ~~thirteen~~ twenty-four thousand five hundred dollars or ~~nine~~ twenty thousand dollars, as applicable.

b. In lieu of the computation in subsection 1 or 2, or in paragraph *"a"* of this subsection, if the married persons', filing jointly or filing separately on a combined return, head of household's, or surviving spouse's net income exceeds ~~thirteen~~ twenty-four thousand five hundred dollars, the regular tax imposed under this division shall be the lesser of the maximum state individual income tax rate times the portion of the net income in excess of ~~thirteen~~ twenty-four thousand five hundred dollars or the regular tax liability computed without regard to this sentence. Taxpayers electing to file separately shall compute the alternate tax described in this paragraph using the total net income of the husband and wife. The alternate tax described in this paragraph does not apply if one spouse elects to carry back or carry forward the loss as provided in section 422.9, subsection 3.

Sec. 8. Section 422.5, subsection 6, Code 2014, is amended to read as follows:

6. Upon determination of the latest cumulative inflation factor, the director shall multiply each dollar amount set forth in subsection 1, paragraphs *"a"* through ~~*"i"*~~ *"d"* by this cumulative inflation factor, shall round off the resulting product to the nearest one dollar, and shall incorporate the result into the income tax forms and instructions for each tax year.

Sec. 9. Section 422.7, Code 2014, is amended by adding the following new subsection:

NEW SUBSECTION. 48. *a.* Subtract, to the extent not otherwise excluded, the total amount of wages received by a secondary wage earner, up to a maximum of one thousand dollars.

b. Subtract, to the extent not otherwise excluded, the total amount of wages received by an identical wage earner, up to a maximum of five hundred dollars per identical wage earner.

c. For purposes of this subsection:

(1) *"Identical wage earner"* means a married person who, with respect to a tax year, received the same amount of wages as the spouse of the married person.

(2) *"Secondary wage earner"* means a married person who, with respect to a tax year, received a lower amount of wages than the spouse of the married person.

Sec. 10. Section 422.9, subsection 1, Code 2014, is amended to read as follows:

1. An optional standard deduction, after deduction of federal income tax if available, equal to one thousand two hundred thirty dollars for a married person who files separately or a single person or equal to three thousand thirty dollars for a husband and wife who file a joint return, a surviving spouse, or a head of household. The optional standard deduction shall not exceed the amount remaining after

deduction of the federal income tax, if available. The amount of federal income tax deducted shall be computed as provided in subsection 2, paragraph *"b"*.

Sec. 11. Section 422.9, subsection 2, paragraph b, Code 2014, is amended to read as follows:

b. Add the amount of federal income taxes paid ~~or accrued, as the case may be,~~ during the tax year beginning on or after January 1, 2014, but before January 1, 2015, to the extent payment is for a tax year beginning prior to January 1, 2014, and subtract any federal income tax refunds received during the tax year beginning on or after January 1, 2014, but before January 1, 2015, to the extent the federal income tax was deducted for a tax year beginning prior to January 1, 2014. Where married persons, who have filed a joint federal income tax return, file separately, such total shall be divided between them according to the portion of the total paid or accrued, as the case may be, by each. Federal income taxes paid for a tax year in which an Iowa return was not required to be filed shall not be added and federal income tax refunds received from a tax year in which an Iowa return was not required to be filed shall not be subtracted.

Sec. 12. Section 422.11B, subsection 1, paragraph a, Code 2014, is amended to read as follows:

a. There is allowed as a credit against the tax determined in section 422.5, subsection 1, paragraphs *"a"* through *"d"* and *"j"* for a tax year an amount equal to the minimum tax credit for that tax year.

Sec. 13. Section 422.11B, subsection 2, Code 2014, is amended to read as follows:

2. *a.* The allowable credit under subsection 1 for a tax year shall not exceed the excess, if any, of the tax determined in section 422.5, subsection 1, paragraphs *"a"* through *"d"* and *"j"* over the state alternative minimum tax as determined in section 422.5, subsection 2.

b. The net minimum tax for a tax year is the excess, if any, of the tax determined in section 422.5, subsection 2, for the tax year over the tax determined in section 422.5, subsection 1, paragraphs *"a"* through *"d"* and *"j"* for the tax year.

Sec. 14. Section 422.12, subsection 2, paragraph a, subparagraph (3), Code 2014, is amended to read as follows:

(3) For each dependent, an additional ~~forty~~ five hundred dollars.

Sec. 15. Section 422.13, subsection 1, paragraph a, Code 2014, is amended to read as follows:

a. The individual has net income of more than ~~nine~~ twenty thousand dollars for the tax year from sources taxable under this division.

Sec. 16. EFFECTIVE UPON ENACTMENT. This Act, being deemed of immediate importance, takes effect upon enactment.

Sec. 17. RETROACTIVE APPLICABILITY. This Act applies retroactively to January 1, 2014, for tax years beginning on or after that date.

EXPLANATION

The inclusion of this explanation does not constitute agreement with the explanation's substance by the members of the general assembly.

This bill makes several changes to the individual income tax.

The bill eliminates the nine existing tax brackets and tax rates and replaces them with four tax brackets and tax rates on taxable income as follows:

1. From $0 to $11,730, 3 percent;
2. From $11,731 to $43,090, 4 percent;
3. From $43,091 to $88,821, 6.20 percent;
4. From $88,822 and over, 8.80 percent.

The income amounts in each bracket will be adjusted for inflation beginning with the 2015 tax year.

The bill increases the net income amounts at which the income tax will not be imposed on a taxpayer who is under 65 years of age to $24,500 from $13,500 for married taxpayers, heads of household, or surviving spouses, and to $20,000 from $9,000 for a single taxpayer. The bill also amends the alternate tax calculation for a married person, head of household, or surviving spouse under the age of 65 so that it is calculated using the amount of net income in excess of $24,500 instead of the amount of income in excess of $13,500. By operation of law and under the bill, a single taxpayer under 65 years of age will not be required to make and file a tax return if the taxpayer's net income is $20,000 or less, and a married taxpayer, head of household, or surviving spouse will not be required to make and file a tax return if the taxpayer's net income is $24,500 or less.

The bill eliminates the deduction for federal income taxes paid and the inclusion of federal income tax refunds received except for a one-year phase-out in 2014, for taxes paid or refunds received in that year that relate to a prior tax year.

The bill increases the personal exemption credit for a dependent to $500 from $40.

Finally, the bill provides an individual income tax exemption from the computation of net income for the first $1,000 of wages received by a "secondary wage earner", which is defined in the bill to be a married person who, with respect to a tax year, received a lower amount of wages than the person's spouse. In the event each spouse received the same amount of wages during the tax year, both spouses will be considered an "identical wage earner" and each will be eligible to exempt the first $500 of wages received.

The bill takes effect upon enactment and applies retroactively to January 1, 2014, for tax years beginning on or after that date.